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SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-74960; File No. SR-CBOE-2015-029)

May 14, 2015

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Order Granting Approval of a Proposed Rule Change Relating to Stock-Option Order Handling

I. Introduction

On March 16, 2015, Chicago Board Options Exchange, Incorporated (“CBOE” or the “Exchange”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act” or “Exchange Act”)¹ and Rule 19b-4 thereunder,² a proposed rule change to amend its rules regarding the handling and processing of stock-option orders on the Exchange. The proposed rule change was published for comment in the Federal Register on April 1, 2015.³ The Commission received no comments on the proposal. This order grants approval of the proposed rule change.

II. Description of the Proposed Rule Change

The Exchange proposes to amend its rules regarding the handling and processing of stock-option orders represented in open outcry on the floor of the Exchange. As described in more detail below, the Exchange proposes to amend CBOE Rule 6.48 to allow Trading Permit Holders (“TPHs”) or PAR Officials⁴ to electronically route the stock component of a stock-option order represented in open outcry on the floor of the CBOE directly from a Public

¹ 15 U.S.C.78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 74590 (March 26, 2015), 80 FR 17528 (“Notice”).

⁴ See Notice, supra note 3 at 17529, defining “PAR Officials.”

Automated Routing (“PAR”) workstation⁵ to an Exchange-designated broker-dealer for electronic execution on a stock venue. In addition, the Exchange proposes to amend Interpretation .06 to Rule 6.53C to require that the Clearing Trading Permit Holder (“CTPH”)⁶ identified as the Designated Give Up by the executing TPH in accordance with CBOE Rule 6.21 on a stock-option order enter into a brokerage agreement with the non-affiliated Exchange-designated broker-dealers before the TPH electronically routes the stock component of the stock-option order to that Exchange-designated broker-dealer for execution on a stock venue.

Routing Stock Component of a Stock-Option Order via PAR. Currently, the stock component of stock-option orders handled and processed on the Exchange in open outcry are manually transmitted (e.g., via telephone) by the PAR user (i.e., a floor broker or PAR Official) on the floor to a broker on a stock trading venue for execution. The Exchange proposes to adopt subparagraph (d) to Exchange Rule 6.48 (Contract Made on Acceptance of Bid or Offer) to allow TPHs or PAR Officials to electronically route the stock component of such stock-option orders to an Exchange-designated broker-dealer not affiliated with the Exchange for electronic execution at a stock trading venue directly from PAR.⁷ Proposed Rule 6.48(d) also provides that the stock component of a stock-option order represented in open outcry may be routed to an Exchange-designated broker-dealer not affiliated with the Exchange for electronic execution at a stock trading venue as single orders or as paired orders (including with orders transmitted from separate PAR workstations), and that the stock-option order must comply with the Qualified

⁵ Id., defining “PAR workstations.”

⁶ Id. at footnote 5, discussing the obligations of TPHs and CTPHs.

⁷ See Notice, supra note 3 at 17530.

Contingent Trade (“QCT”) Exemption of Rule 611(a) of Regulation NMS.⁸ Finally, Rule 6.48(d) would require TPHs who route the stock component of a stock-option order represented in open outcry through PAR to comply with Rule 6.53C.06, which governs the trading of complex orders, including stock-option orders, on the CBOE Hybrid System.⁹

The Exchange represents that for any order whose stock component is routed via PAR to an Exchange-designated broker-dealer for execution at a stock trading venue, the Exchange-designated broker-dealer would be responsible for the proper execution, trade reporting, and submission to clearing of the stock trade that is part of the stock-option order.¹⁰ The Exchange also represents that once the stock component of a stock-option order is transmitted to the Exchange-designated broker-dealer, the Exchange-designated broker-dealers is responsible for determining whether the orders may be executed in accordance with all of the rules applicable to the execution of equity orders, including compliance with applicable short sale, trade-through, and reporting rules.¹¹

The Exchange believes that the proposed rule change will support more efficient stock-option order execution, streamline the steps required for open-outcry stock-option order trading, and enhance the Exchange’s audit trail by creating a more robust record of the stock component of stock-option order executions on the floor of the Exchange.¹² The Exchange also believes that the proposed rule change will promote liquidity on the national market system by allowing TPHs to more easily use stock-option orders and more quickly send the stock component of a stock-

⁸ Id.

⁹ See Proposed Rule 6.48(d).

¹⁰ See Notice, supra note 3 at 17530.

¹¹ Id.

¹² Id.

option order to a stock trading venue.¹³

Brokerage Agreement between the Clearing Trading Permit Holder and the Exchange-designated Broker-Dealer. Under current Interpretation and Policy .06(a) to CBOE Rule 6.53C, the stock component of a stock-option order cannot be processed automatically unless the executing TPH has entered into a brokerage agreement with one or more Exchange-designated broker-dealer(s) not affiliated with the Exchange that can electronically execute the equity order on a stock trading venue.¹⁴ Under the proposed rule change, Interpretation and Policy .06 to CBOE Rule 6.53C would instead require the CTPH that was previously identified by the TPH as the “Designated Give Up” pursuant to CBOE Rule 6.21 to enter into a brokerage agreement with the non-affiliated Exchange-designated broker-dealer(s) before the TPH electronically routes the stock component of a stock-option order to the Exchange-designated broker-dealer for execution at a stock-trading venue.¹⁵ The Exchange notes that it is the CTPH, not the order entry TPH that guarantees authorization of a trade and accepts financial responsibility for all Exchange transactions made by the execution TPH. Accordingly, the Exchange believes that, consistent with CBOE Rule 6.21 (relating to give-ups), the CTPH should be responsible for order handling and processing requirements for trades that it guarantees.¹⁶ In connection with the Exchange’s proposal to amend Interpretation and Policy .06 to Rule 6.53C, the Exchange also clarified that the stock component of a stock-option order represented in open outcry shall be routed from PAR to the Exchange-designated broker-dealer for automated processing in accordance with the

¹³ See Notice, supra note 3 at 17532.

¹⁴ Id. at 17531.

¹⁵ Id.

¹⁶ Id. at 17532.

order's terms.¹⁷

Conforming and Clarifying Changes. Finally, the Exchange also proposes conforming changes to Exchange Rules 6.45A (Priority and Allocation of Equity Option Trades on the CBOE Hybrid System) and 6.45B (Priority and Allocation of Trades in Index Options and Options on ETFs on the CBOE Hybrid System) to reference the revised functionality set forth in this proposal.¹⁸ The Exchange also proposes to specify that stock-option orders may be executed against other electronic stock-option orders in general, rather than state that such orders may be executed against other stock-option orders specifically through either the COB or COA.¹⁹

III. Discussion and Commission Findings

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.²⁰ In particular, the Commission finds that the proposed rule change is consistent with the requirements of Section 6(b)(5) of the Act,²¹ which requires, among other things, that the Exchange's rules be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitation transactions in securities, to remove impediments to and perfect the

¹⁷ See Proposed Interpretation and Policy .06(a) to Rule 6.53C.

¹⁸ See Notice, supra note 3 at 17531.

¹⁹ Id. According to the Exchange, this latter change reflects the fact that such orders may be subjected to the Automated Improvement Mechanism ("AIM") as well as executed through the COB or COA.

²⁰ In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

²¹ 15 U.S.C. 78f(b)(5).

mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest; and are not designed to permit unfair discrimination between customers, issuers, brokers or dealers. The Commission believes that the proposed change to extend electronic stock component routing functionality to PAR users will create another method for processing stock-option orders entered into on the Exchange that is designed to facilitate transactions in stock-option orders on the Exchange. The Commission also believes that it is reasonable for the CTPH that guarantees a stock-option order transaction to enter into a brokerage agreement with the Exchange-designated broker-dealer that will execute the stock component of the stock-option order on a stock trading venue.

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,²² that the proposed rule change (SR-CBOE-2015-029) be, and it hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²³

Robert W. Errett
Deputy Secretary

[FR Doc. 2015-12141 Filed: 5/19/2015 08:45 am; Publication Date: 5/20/2015]

²² 15 U.S.C. 78s(b)(2).

²³ 17 CFR 200.30-3(a)(12).